

AMARA RAJA ENERGY & MOBILITY LTD

Rating: ▲ | Target price: ▲ | EPS: ▼

ONE YEAR OUTLOOK

Business & Earnings ▲

- Revise our rating on ARENM from REDUCE to ADD with a TP of Rs. 1,400. ARE&M is likely to benefit from healthy aftermarket growth and thrust in export segment (15% CAGR). We believe the advent of alternate fuel vehicles (CNG, LNG etc.) would aid lead acid growth. We factor in steady pickup in demand for lithium battery pack and EV chargers (1HFY25 revenues of Rs. 2.3bn) as AREN&M leverages its existing relationships across automotive and industrial clientele. ARENM's 16 GWH Li-ion cell manufacturing facility in Telangana would be commissioned in a staggered manner with 2 GWH (phase-1) NMC capacity expected by FY26. However, we believe partial benefits of li-ion manufacturing are factored in, especially ARE&M's strategic agreement with Ather Energy & favourable sourcing benefits from tie-up with GIB (Gotion) for LFP & Jiangsu Highstar for NMC.
- In 2QFY25, lead acid revenues were up 12% YoY aided by healthy growth in exports (14% YoY) and aftermarket (2W/4W – 17%/15% YoY) & 2W OEM (17% YoY). Industrial segment declined 10% as telecom (down 30% YoY) transitioned to Li-ion. Revenue from EV chargers & Lithium Battery Packs was down 33% YoY to Rs. 1bn due to underlying weakness in the 3W OEM segment. We pencil in an overall revenue growth of ~10% through FY24-26E. EBITDA margins (14.1% in 2QFY25) are likely to improve led by commissioning of lead smelting unit (catering to ~30% of lead requirement) and shift from traded to manufacturing of tubular batteries in FY26.
- We expect a capex of ~Rs. 32bn through FY25-FY26E towards 1) Li-ion cell manufacturing plant (Rs. 20bn), 2) existing line expansion & 3) reconstructing tubular capacity (covered by insurance).

Valuation Multiples ▲

- Our TP of Rs. 1,400 is based on 19x FY26E EPS Lead Acid (Rs. 1,275, ~90% of overall TP) and Rs. 123 from Li-ion operations (DCF based due to back ended benefits). The revision in multiple factors in the robust growth in lead acid aftermarket & export segment coupled with margin expansion, led by operating efficiencies.

FINANCIAL SUMMARY

	Net Sales (Rs mn)	EBITDA (%)	PAT (Rs mn)	EPS (Rs)	P/E (x)	EV/EBITDA (x)	ROE (%)
FY23	1,03,897	13.8	7,307	42.8	33	17	14
FY24	1,12,603	14.4	9,059	49.5	27	15	14
FY25E	1,24,334	14.2	9,629	52.6	25	14	13
FY26E	1,36,779	14.8	11,375	62.2	21	12	14
FY27E	1,47,667	14.8	12,415	67.8	19	11	14

CMP
Rs. 1,330

Target Price
Rs. 1,400

Rating
ADD

Avendus[^]
SPARK

THREE YEAR OUTLOOK

Business & Earnings ▲

- In June 2024, ARACT (100% subsidiary of ARENM) announced technical licensing agreement with GIB EnergyX Slovakia s.r.o.(GIB), a JV between Gotion High-Tech Co Ltd, China and InoBat, Slovakia. The agreement allows ARACT to 1) access cell technology IP, 2) seek support to establish Gigafactory facilities confirming the latest generation process technologies, 3) integrate with Gotion's global supply chain network for critical battery materials, and 4) provide customer technical support for solution deployment. The company had developed the 2170 NMC cell in its Advanced Lithium Technology Research Hub in collaboration with Jiangsu Highstar. The company intends to set up 16 GWH cell manufacturing capacities by FY32 (Phase 1: 2GWH by FY25 focused on NMC chemistry, Phase 2: 8 GWH by FY28, Phase 3: 16GWH by FY32). ARENM aims to send test samples to secure approvals from various OEMs & fleet operators for commercial supplies, and we expect benefits to accumulate in the long run.
- ARENM's growth in lead acid would be led by an increasing market share in Export, AM/OEM markets. The company plans to enhance its footprint in the export market wherein it has incorporated many subsidiaries. ARENM also plans to establish a strong presence in the motive power space due to the thrust on warehousing. However, the growing competitive intensity would be a key monitorable for margin expansion.

Valuation Multiples ▲

- Expect ARENM to report a revenue and PAT CAGR of 9% & 13%, respectively over FY24-FY28E. While return ratios are likely to be under duress due to significant capex, anticipate ramp-up in li-ion capacities to improve operating efficiencies/return profile.

KEY ESTIMATES REVISION

	FY25E			FY26E		
	Old	New	Change	Old	New	Change
Sales	1,25,109	1,24,334	-1%	1,36,821	1,36,779	0%
EBITDA (%)	14.4	14.2	-20 bps	15.5	14.8	-70 bps
PAT	9,773	9,629	-1%	11,840	11,375	-4%
EPS	57.2	52.6	-8%	69.3	62.2	-10%
Target PE	Before Results:		17.3	After Results:		21.0

All figures in Rs.Mn

OUTLOOK REVIEW 2QFY25 7 November 2024

Industry AUTOMOBILE

Key Stock Data

Bloomberg	ARENM IN
Shares o/s	183mn
Market Cap	Rs. 243bn (\$2,871mn)
52-wk High-Low	Rs. 1,776-622
3m ADV	Rs. 1,038mn (\$12mn)
F&O	Yes

Latest Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoters	32.9	32.9	32.9
Institutions	39.8	38.3	37.7
Public	27.3	28.8	29.4
Pledge	0.0	0.0	0.0

Stock Performance (%)

	1m	3m	12m
ARENM	-4.4	-12.5	112.5
Sensex	-0.8	1.1	22.3

RESEARCH ANALYSTS

Mukesh Saraf
mukesh.s@avendusspark.com
+91 44 4344 0041

Ramakrishnan Seshan
Ramakrishnan.s@avendusspark.com
+91 44 4344 0020

N.J. Krupashankar
krupashankar.n@avendusspark.com
+91 44 4344 0098

Quarterly Financial Statement

- Standalone revenue for the quarter came in at ~Rs. 31.4bn, up 12% YoY and flat QoQ. Management commentary has indicated that revenue growth was aided by performance in the automotive after-market and export markets.
- Based on segmental disclosures (consolidated), lead acid segment revenue was at Rs. 31.5bn, up 12% YoY and flat QoQ. Lead acid EBIT margins was at 10.0%, up 20bps QoQ. Li-ion revenues was at Rs. 1.0bn, down 33% YoY and 20% QoQ. Li-ion EBIT margins was at -14.2%.
- Gross margin at 32.4%, increased ~120 bps QoQ. Exide's gross margin was at 31.5%, was up ~80 bps QoQ.
- Consequently, EBITDA came in at Rs. 4.4bn, up 8% YoY and 2% QoQ. EBITDA margin came in at 14.1%, up 30bps QoQ.
- PAT for the quarter stood at Rs. 2.4 bn, up 6% YoY and down 2% QoQ.

Standalone Financial Results

Rs. mn\Period	2QFY25	2QFY24	yoy Growth	1QFY25	qoq Growth	1HFY25	1HFY24	Yoy Growth
Revenue	31,358	28,111	11.6%	31,312	0.1%	62,670	55,811	12.3%
Raw Material	21,212	18,725	13.3%	21,563	-1.6%	42,775	38,420	11.3%
Employee cost	1,899	1,783	6.5%	1,856	2.3%	3,755	3,395	10.6%
Other cost	3,841	3,505	9.6%	3,590	7.0%	7,430	6,363	16.8%
Total Expenditure	26,952	24,013	12.2%	27,008	-0.2%	53,960	48,178	12.0%
Reported EBITDA	4,407	4,099	7.5%	4,304	2.4%	8,710	7,633	14.1%
<i>Reported Margin %</i>	14.1%	14.6%	-53 bps	13.7%	31 bps	13.9%	13.7%	22 bps
Depreciation	1,220	1,207	1.1%	1,183	3.2%	2,403	2,317	3.7%
EBIT	3,186	2,892	10.2%	3,121	2.1%	6,307	5,316	18.6%
Other income	185	277	-33.3%	256	-27.7%	440	493	-10.6%
Net Interest exp (inc)	131.3	81.3	61.5%	89.7	46.4%	221.0	137.6	60.6%
PBT	3,240	3,087	4.9%	3,287	-1.4%	6,526	5,671	15.1%
Tax provision	833	823	1.1%	841	-1.0%	1,674	1,482	12.9%
<i>Tax rate %</i>	25.7%	26.7%	-97 bps	25.6%	11 bps	26%	26%	-49 bps
PAT (Adjusted)	2,407	2,264	6.3%	2,446	-1.6%	4,853	4,189	15.8%
<i>Adjusted PAT margin (%)</i>	2,407	2,264	6.3%	2,446	-1.6%	4,853	4,189	15.8%
Shares Outstanding	7.7%	8.1%	-38 bps	7.8%	-13 bps	7.7%	7.5%	24 bps
EPS (Reported)	183	171		183		183	183	
EPS (Adjusted)	13.2	13.3	-0.8%	13.4	-1.6%	26.5	22.9	15.8%

Source: Company data, Avendus Spark Research

Abridged Financials

in Rs. Bn	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Standalone operations (Lead Acid)								
Revenues	101.4	111.9	124.3	136.8	147.7	157.8	168.9	180.6
YoY (%)		10%	11%	10%	8%	7%	7%	7%
EBITDA	14.3	16.1	17.6	20.2	21.8	23.3	25.0	26.7
EBITDA (%)	14.1%	14.4%	14.2%	14.8%	14.8%	14.8%	14.8%	14.8%
PAT	7.8	9.0	9.7	11.4	12.3	13.2	14.2	15.2
PAT (%)	7.7%	8.0%	7.8%	8.3%	8.4%	8.4%	8.4%	8.4%
Net Block	36.9	36.5	39.6	38.4	37.4	36.5	35.9	35.0
Advance Cell Tech subsidiary (Non-current investment)	4.6	12.1	22.1	32.1	42.7	53.0	62.9	71.8
Cash & cash equivalents	1.2	3.7	1.8	1.2	1.1	2.0	3.5	8.5
Net Working Capital	17.1	14.5	16.1	17.6	18.9	20.1	21.5	22.9
NWC days	62	47	47	47	47	47	46	46
Capital Employed - Lead Acid	59.9	66.9	79.6	89.3	100.1	111.6	123.8	138.2
Li-Ion cell manufacturing operations								
Revenues				0.0	6.9	21.0	34.6	43.9
YoY (%)						205%	65%	27%
EBITDA				0.0	0.1	0.8	2.4	3.7
EBITDA (%)					2.0%	4.0%	7.0%	8.5%
PBT		Immaterial		-1.7	-2.0	-2.0	-1.0	-0.1
PBT (%)					NM	NM	NM	NM
Net Block				22.6	31.1	38.5	44.9	49.7
Net Working Capital				0.0	0.6	1.7	2.8	3.6
NWC days				30	30	30	30	30
Capital Employed - Li-ion				22.6	31.7	40.3	47.8	53.3
Consolidated								
Revenues	103.9	117.1	129.6	136.8	154.6	178.8	203.5	224.4
YoY (%)		13%	11%	6%	13%	16%	14%	10%
EBITDA	14.4	16.5	18.1	20.8	22.7	25.1	28.4	31.6
EBITDA (%)	13.8%	14.1%	13.9%	15.2%	14.7%	14.0%	14.0%	14.1%
EBIT	9.6	11.4	12.9	13.6	14.9	16.1	18.4	20.7
EBIT (%)	9.2%	9.7%	9.9%	10.0%	9.6%	9.0%	9.1%	9.2%
PAT	7.6	9.0	9.8	10.3	11.2	12.1	13.9	15.7
PAT (%)	7.3%	7.7%	7.6%	7.5%	7.3%	6.7%	6.8%	7.0%
Net Block	36.9	41.3	54.2	61.1	68.3	74.5	79.9	83.3
Cash & cash equivalents	1.2	3.7	1.8	1.2	1.1	2.0	3.5	8.5
Net Working Capital	17.1	14.5	16.1	17.6	19.4	21.8	24.3	26.5
NWC days	60	45	45	47	46	45	44	43
Capital Employed - Consolidated	55.2	59.5	72.1	79.8	88.9	98.3	107.8	118.3

Amara Raja Energy & Mobility Outlook Review 2QFY25 | Rating: ADD | TP: Rs. 1,400



Our base case analysis indicates that li-ion business is valued at Rs. 21bn assuming a projected utilization level of 17 GWh (80% utilization level) and margins of 12% for FY35. Also, the LAB segment contributes Rs. 1275/share to an overall TP of Rs. 1,400

Amara: Li-ion Batteries (Li-Ion)	FY23-25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35
Revenue (Rs. Bn)		0.0	6.9	21.0	34.6	43.9	52.1	65.3	80.8	98.5	104.7
YoY (%)				205%	65%	27%	19%	25%	24%	22%	6%
EBITDA (Rs. Bn)		0.0	0.1	0.8	2.4	3.7	5.2	6.9	8.9	11.3	12.6
% Margins	Immaterial		2.0%	4.0%	7.0%	8.5%	10.0%	10.5%	11.0%	11.5%	12.0%
Capex (Rs. Bn)		10.0	10.6	10.2	9.9	8.9	9.8	9.5	7.8	7.5	5.1
FCFF (Rs. Bn)		-10.0	-11.0	-10.5	-8.6	-5.9	-5.3	-3.7	-0.2	2.4	6.9
RoIC (%)		-11%	-5%	-4%	-2%	-1%	1%	2%	4%	6%	7%

Lithium-Ion Operations	FY26
Terminal Growth (%)	6%
WACC (%)	13%
Discounted FCFF (Rs. Bn)	-22.2
PV of Terminal Value (Rs. Bn)	43.1
EV (Rs. Bn)	20.9
Less: Net Debt/(net Cash) (Rs. Bn)	0.0
Implied Market Cap (Rs. Bn)	20.9
Outstanding Shares (Mn)	171
Target Price (Rs.)	123

Key Assumptions

	FY26	FY30	FY35
Capacities (GWh)	2.0	8.0	17.0
Utilisation (%)	0%	65%	80%
Battery Pack (\$/KWh)	126	103	94

- Factoring higher li-ion adoption across automotive, telecom, and energy storage solutions for key end-user industries.
- Margins estimated to be lower than EXIDE due to lack of sourcing tie-up and technical partnership.
- Incremental capex per GWh estimated to reduce with increasing scale

Amara: Consolidated (LaB + Li-ion)	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35
RoIC (%)	13%	16%	16%	15%	14%	14%	15%	15%	16%	17%	19%	21%	23%

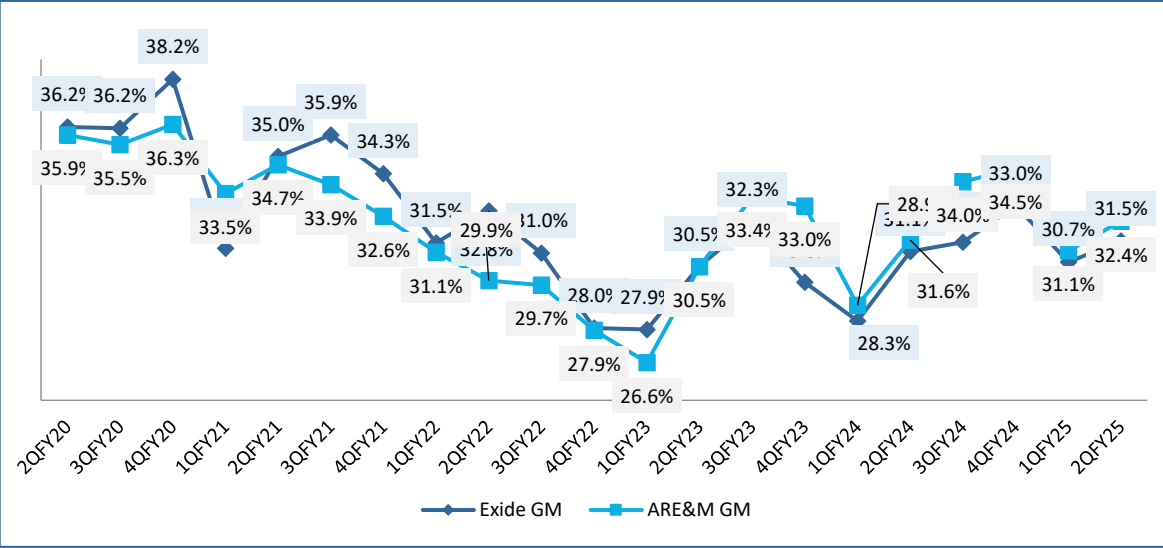
	FY26	FY28E
P/E Multiple	19	16
Lead Acid EPS (Rs.)	66.6	77.2
Lead Acid TP (Rs.) (A)	1,275	1,234
Li-Ion TP (Rs.) (B)	123	281
Total TP (Rs.) (A+B)	1,398	1,516

Segmental results & Margin Profile

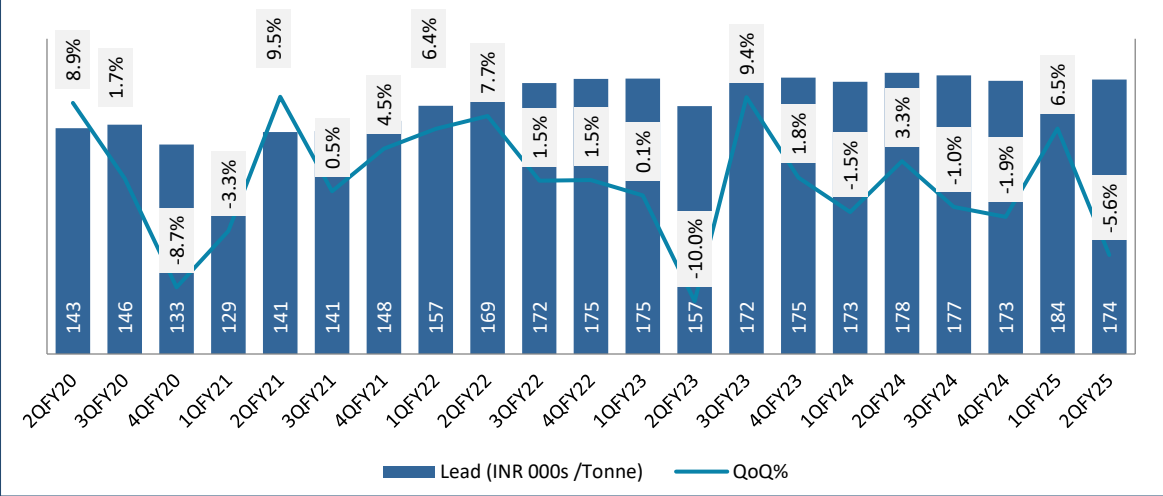
Segmental Results (Consol)	2QFY25	1QFY25	QoQ growth	2QFY24	YoY growth	1HFY25	1HFY24	YoY growth
Revenues								
Lead acid	31,501	31,373	0%	28,093	12%	62,874	54,979	14%
Others (New Energy)	1,007	1,258	-20%	1,504	-33%	2,264	2,581	-12%
TotalRevenue	32,507	32,631	0%	29,597	10%	65,138	57,560	13%
EBIT								
Lead acid	3,158	3,062	3%	2,917	8%	6,220	5,379	16%
Others (New Energy)	-143	58	-346%	116	-224%	-85	158	-154%
Total EBIT	3,015	3,120	-3%	3,033	-1%	6,135	5,536	11%
EBIT Margins								
Lead acid	10.0%	9.8%	26 bps	10.4%	-36 bps	9.9%	9.8%	11 bps
Others (New Energy)	-14.2%	4.6%	-1880 bps	7.7%	-2187 bps	-3.7%	6.1%	-985 bps
Total EBIT	9.3%	9.6%	-29 bps	10.2%	-97 bps	9.4%	9.6%	-20 bps

Source: Company, Aventus Spark

EXID and ARENM – Gross margin trend



Lead price trend



Financial Summary

Standalone Financial Statements

Rs mn	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Profit & Loss										
Revenue	67,931	68,395	71,497	86,958	1,03,897	1,12,603	1,24,334	1,36,779	1,47,667	1,57,783
Gross profit	21,490	23,923	24,050	25,745	33,917	37,262	39,900	44,441	47,979	51,265
EBITDA	9,518	10,986	11,157	10,226	14,350	16,214	17,644	20,231	21,842	23,338
Depreciation	2,612	3,007	3,192	3,957	4,504	4,787	4,965	5,191	5,493	5,831
EBIT	6,906	7,978	7,965	6,269	9,846	11,427	12,680	15,041	16,349	17,507
Other Income	468	551	874	780	896	1,015	760	698	806	1,135
Interest expense	70	122	105	151	296	332	531	541	568	597
Exceptional items	0	0	0	0	-477	0	0	0	0	0
PBT	7,304	8,407	8,733	6,898	9,970	12,110	12,909	15,197	16,586	18,046
Reported PAT (after minority interest)	4,835	6,608	6,468	5,113	7,307	9,059	9,629	11,375	12,415	13,507
Adj PAT	4,835	6,608	6,468	5,113	7,307	9,059	9,629	11,375	12,415	13,507
EPS (Rs.)	28.3	38.7	37.9	29.9	42.8	49.5	52.6	62.2	67.8	73.8
Balance Sheet										
Net Worth	33,353	36,556	42,130	45,514	60,056	67,687	75,871	85,540	96,093	1,07,574
Total debt	468	343	234	165	1,111	533	5,033	5,033	5,333	5,333
Other liabilities and provisions	6,034	6,958	8,142	10,015	10,693	11,725	12,854	14,052	15,101	16,074
Total Networth and liabilities	39,855	43,857	50,506	55,694	71,860	79,945	93,759	1,04,626	1,16,527	1,28,981
Gross Fixed assets	26,165	29,337	38,784	43,116	59,580	62,988	70,988	74,988	79,488	84,488
Net fixed assets	18,128	18,292	24,548	24,923	36,882	35,503	38,538	37,348	36,355	35,524
Capital work-in-progress	3,147	8,270	3,993	8,297	2,343	3,217	3,217	3,217	3,217	3,217
Intangible Assets	0	0	0	0	0	0	0	0	0	0
Investments	205	1,562	2,805	778	4,860	14,791	22,791	32,142	42,742	52,963
Cash and bank balances	718	845	1,758	536	998	1,045	1,122	1,189	1,115	1,981
Loans & advances and other assets	4,462	3,247	2,610	3,262	9,741	5,522	5,993	6,493	6,930	7,336
Net working capital	13,196	11,641	14,792	17,899	17,035	19,868	22,098	24,239	26,169	27,961
Total assets	39,855	43,857	50,506	55,694	71,860	79,945	93,759	1,04,626	1,16,527	1,28,981
Capital Employed	34,780	37,341	42,771	45,993	62,203	69,105	81,789	91,458	1,02,311	1,13,792
Invested Capital (CE - cash - CWIP)	30,915	28,226	37,021	37,161	58,862	64,844	77,450	87,053	97,979	1,08,595
Net debt	-253	-1,924	-4,258	-718	-125	-3,161	3,261	3,845	4,218	3,353
Cash Flow										
Cash flows from Operations (Pre-tax)	7,830	14,133	10,016	8,323	12,125	16,431	16,302	18,945	20,761	22,651
Cash flows from Operations (post-tax)	5,413	11,769	8,020	6,330	9,562	13,142	13,022	15,123	16,589	18,113
Capex	-5,282	-6,999	-4,964	-7,609	-4,659	-4,423	-8,000	-4,000	-4,500	-5,000
Free cashflows	131	4,770	3,057	-1,280	4,904	8,719	5,022	11,123	12,089	13,113
Free cashflows (post interest costs)	59	4,633	2,948	-1,280	4,904	8,719	5,022	11,123	12,089	13,113
Cash flows from Investing	-4,631	-8,497	-6,350	-4,831	-7,892	-10,720	-16,000	-13,350	-15,100	-15,221
Cash flows from Financing	-916	-3,638	-1,215	-2,123	-1,119	-2,425	3,056	-1,706	-1,562	-2,026
Total cash & liquid investments	718	845	1,758	536	1,236	3,694	1,772	1,189	1,115	1,981

Financial Summary

Standalone Financial Statements

	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Key Variables										
Four wheeler OEM Volumes in Mns	2.8	2.2	2.0	2.4	2.7	3.0	3.2	3.4	3.6	3.8
Four wheeler Replacement Volumes in Mns	6.5	7.2	7.8	9.1	10.2	10.9	12.4	13.9	15.1	16.3
Four wheeler Export Volumes in Mns	0.9	0.9	0.8	1.3	1.4	1.6	1.9	2.2	2.5	2.6
Growth ratios (%)										
Revenue	12	1	5	22	19	8	10	10	8	7
EBITDA	8	15	2	-8	40	13	9	15	8	7
Adj PAT	3	37	-2	-21	43	24	6	18	9	9
Margin ratios (%)										
Gross	31.6	35.0	33.6	29.6	32.6	33.1	32.1	32.5	32.5	32.5
EBITDA	14.0	16.1	15.6	11.8	13.8	14.4	14.2	14.8	14.8	14.8
Adj PAT	7.1	9.7	9.0	5.9	7.0	8.0	7.7	8.3	8.4	8.6
Performance ratios										
Pre-tax OCF/EBITDA (%)	82	129	90	81	84	101	92	94	95	97
OCF/IC (%)	18	42	22	17	16	20	17	17	18	18
RoE (%)	15	19	16	12	14	14	13	14	14	13
RoCE (%)	15	19	16	12	15	14	13	14	13	13
RoCE (Pre-tax) (%)	22	24	22	16	20	19	18	18	18	17
Fixed asset turnover (x)	2.8	2.5	2.1	2.1	2.0	1.8	1.9	1.9	1.9	1.9
Total asset turnover (x)	1.8	1.6	1.5	1.6	1.6	1.5	1.4	1.4	1.5	1.5
Financial stability ratios										
Net Debt to Equity (x)	-0.0	-0.1	-0.1	-0.0	-0.0	-0.0	0.0	0.0	0.0	0.0
Net Debt to EBITDA (x)	-0.0	-0.2	-0.4	-0.1	-0.0	-0.2	0.2	0.2	0.2	0.1
Interest cover (x)	78	97	76	42	32	40	25	28	29	30
Cash conversion days	71	62	76	75	60	64	65	65	67	67
Total Working capital days	68	45	49	48	60	47	47	47	48	48
Valuation metrics										
Fully Diluted Shares (mn)	171	171	171	171	171	183	183	183	183	183
Market cap (Rs.mn)			2,43,335							
P/E (x)	50	37	37	47	33	27	25	21	19	18
P/Sales (x)	3.6	3.5	3.4	2.8	2.3	2.1	1.9	1.8	1.6	1.5
EV (Rs.mn) (ex-CWIP)	2,38,111	2,31,317	2,33,260	2,32,497	2,39,043	2,35,134	2,41,556	2,42,139	2,42,513	2,41,647
EV/ EBITDA (x)	25	21	21	23	17	15	14	12	11	10
EV/ OCF(x)	44	20	29	37	25	18	19	16	15	13
FCF Yield (%)	0.1	2.0	1.3	-0.5	2.0	3.6	2.1	4.6	5.0	5.4
Price to BV (x)	7.2	6.6	5.7	5.3	4.0	3.6	3.2	2.8	2.5	2.2
Dividend yield (%)	0	0	0	0	0	0	0	0	0	0
Dividend pay-out (%)	15	50	13	25	25	25	15	15	0	0

Crystal Ball Gazing

Expect ARENM to report a revenue and PAT CAGR of ~9% & 13% respectively through FY23-FY28E. ARENM to benefit from strong growth in the automotive replacement segment coupled with robust prospects in the solar/e-rickshaw and renewable energy sectors. See sustained improvement in EBITDA margin to ~14.8% by FY28E, leveraging upon its competitive strength and operating leverages. We, however, believe that these could be tempered by heightening competitive intensity.

Expect revenue growth to be led primarily by the automotive segment through FY27E; stability returning to telecom segment would aid margins

	FY08-FY11	FY11-FY14	FY14-FY22	FY23-FY28E
Revenues CAGR	42%	25%	14%	9%
Gross Margin	37%	33%	33%	33%
EBITDA CAGR	52%	29%	9%	10%
EBITDA margin	14.3%	15.3%	15.5%	14.5%
EPS CAGR	61%	34%	5%	13%
Total Asset Turnover (x)	1.5	2.0	1.8	1.4
Total WC days	96	49	50	49
Pre-tax OCF/EBITDA (%)	65%	90%	88%	94%
Post Tax OCF as a % of IC	13%	34%	24%	17%
Debt/EBITDA	0.7	(0.3)	(0.2)	0.1

Significant capex over the medium-term to result in muted improvement in return ratios

	FY08-FY11	FY11-FY14	FY14-FY22	FY23-FY28E
RoE (%)	22.8%	28.9%	20.3%	13.7%
RoCE (%)	16.1%	25.8%	19.4%	13.6%
RoIC (%)	25.0%	49.4%	32.5%	18.3%

Robust growth prospects in the automotive and newer segments, coupled with healthy cash generation/FCF, to support multiples

Implied P/E multiple	FY28E EPS (Rs.)	Price target
19.2x	79.1	1,540

Entry = Rs. 1,330 @ 20x FY26E EPS

+

Cumulative Dividends of Rs. 25/share

+

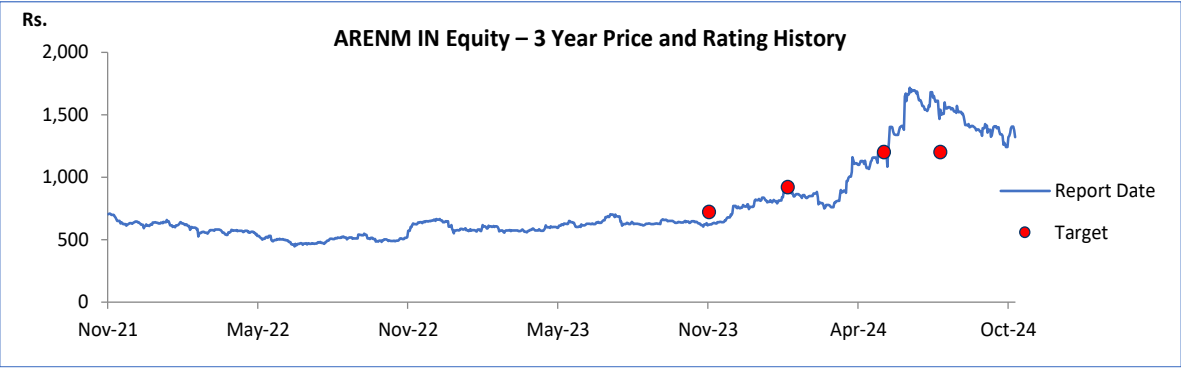
EPS CAGR of ~13%, implied exit multiple of 19.2x on FY28E EPS

=

Total Return of 16%

PLI	Production-linked incentive scheme
OEM	Original equipment manufacturer
2W	Two wheeler
4W	Four wheeler
JV	Joint venture
EV	Electric vehicle
Govt.	Government
Bbl	Barrel
Bn	Billion
Yoy	Year on year
1H	First half
FY	Fiscal year
m/m	Month on month
CAD	Current account deficit
FY	Financial year
QoQ	Quarter on quarter
PV	Passenger vehicles
OEM	Original Equipment Manufacturer

Spark Recommendation History



Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of >15% over a 1-year horizon
ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
SELL	Stock expected to fall >10% over a 1-year horizon

Symbol Interpretation

◀▶ No Change | ▼ Downgrade | ▲ Upgrade

DISCLAIMER:

Spark Institutional Equities Private Limited ("SIE") holds a SEBI Research Analyst license (Registration No.INH200009722) and is primarily engaged in the business of institutional equities broking and research. SIE is registered with SEBI as a Stockbroker (member of BSE Limited and the National Stock Exchange of India Limited) and a Research Analyst.

SIE’s affiliates include (1) Aventus Capital Private Limited, holding Company of SIE, is a SEBI registered Merchant Banker (2) Aventus Wealth Management Private Limited is a SEBI registered Portfolio Manager & Investment Advisor, an investment manager to a Category III Alternative Investment Fund ("AIF"), AMFI registered Mutual Fund distributor and registered as Authorised Person and registered with United States Securities and Exchange Commission (US SEC) as a Registered Investment Advisor (3) Aventus PE Investment Advisors Private Limited is an investment manager to a SEBI Registered Category II AIF. (4) Avizo Advisors Private Limited is an investment manager to SEBI Registered Category II AIF (5) Aventus Capital Public Markets Alternate Strategies LLP is a SEBI registered Portfolio Manager and an investment manager to SEBI registered Category III AIF (6) Aventus Investment Managers Private Limited is a SEBI registered Portfolio Manager and an investment manager to SEBI registered Category III AIF (7) Aventus Finance Private Limited which is registered with RBI as Non-Banking Finance Company and registered with SEBI as Depository Participant (with CDSL and NSDL) (8) Aventus Capital Inc which is Broker dealer registered with SEC-Financial Industry Regulatory Authority (FINRA)-USA and Registered Investment Advisor with State Securities Regulator of New York, New Jersey, Texas and California (9) Aventus Capital Pte Limited, Singapore, registered with Monetary Authority of Singapore ("MAS") and has Capital Markets Services (CMS) Licence in Fund Management activity.

We offer our research services to clients as well as our prospects.

The information and opinion expressed in this Report does not constitute an offer or an invitation to make an offer to buy or sell any securities. None of the Analysts of SIE accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion, and other subjective judgments contained herein are made as of the date of this Research Report. This Research Report does not claim to contain all information that an investor / potential investor may require for making an investment. The past performance of a product or portfolio does not in any manner indicate the surety of the performance in the future. This Report also does not constitute a personal recommendation or take into account the particular investment objectives, financial situations or needs of individual clients. SIE also has a separate team that puts together Technical Analysis / Alternative Research and each recipient of this report must note that the views of the Technical Analyst is always based on short term market variables and will be materially different from the views of the other Sector Analysts in SIE, whose reports are based on fundamental analysis of the Company.

Each recipient of this document should make such analysis as it deems necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document and should consult their own advisors to determine the merits and risks of such an investment. The price and value of the investments referred to in this Research Report and the income from them may go up or down and investors may realize losses on their investments. This Research Report is provided by SIE on a strictly confidential basis for the exclusive use of the recipient and should not be reproduced, redistributed, or passed on, directly or indirectly, to any other person or published, copied, in whole, or in part, for any purpose. SIE does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

This Research Report is not directed or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country, or other jurisdiction, where such distribution, publication, availability, or use would be contrary to law, regulation or which would subject SIE and/or its affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this document may come are required to inform themselves of and observe such applicable restrictions. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. Recipients shall be solely liable for any liability incurred by them in this regard and will indemnify SIE and/or its affiliates for any liability it may incur in this respect.

Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices, and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the provisions as may be applicable pursuant to it. Certain statements made herein may not be based on historical information or facts and may appear to be “Forward Looking Statements” including those relating to general business plans, future financial condition, and growth prospects. The actual results may differ materially from any “Forward- Looking statements” due to a number of factors, including socio, political, competitive environment, force majeure, etc. SIE makes no representation or warranty, express or implied, as to the accuracy, completeness, or fairness of the information and opinions contained in this document. SIE, its affiliates, and the employees of SIE and its affiliates may, from time to time, effect or have effected an own account transaction in or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for or solicit investment banking or other business from, and any company referred to in this report.

Report Date	CMP (Rs.)	TP (Rs.)	Reco.
07-Aug-24	1,465	1,200	REDUCE
31-May-24	1,180	1,200	ADD
05-Feb-24	895	920	ADD
02-Nov-23	618	720	ADD
16-Aug-23	614	700	ADD
23-Jun-23	634	700	ADD
25-May-23	618	650	ADD
16-Feb-23	608	635	ADD
12-Dec-22	659	690	ADD
07-Nov-22	569	595	ADD
10-Aug-22	510	530	ADD
31-May-22	504	535	ADD
15-Feb-22	577	635	ADD
20-Dec-21	619	665	ADD
16-Nov-21	685	710	ADD
17-Aug-21	720	760	ADD

Disclaimers and Disclosures

This Report has been prepared on the basis of the facts, figures and information, which is already available in publicly accessible media or sources believed to be reliable or developed through an independent analysis by the Analysts of SIE. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. While we would endeavor to update the information herein on a reasonable basis, SIE and its affiliates are under no obligation to update the information. Also, there may be regulatory, compliance, or other reasons that prevent SIE and its affiliates from doing so. Neither SIE nor its affiliates or their respective directors, employees, agents, or representatives shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the report or the inability to use or access our service in this report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits that may arise from or in connection with the use of or reliance on this report.

SIE and/or its affiliates and/or employees may have interests/positions, financial or otherwise, in the securities mentioned in this Report. To enhance transparency, SIE has incorporated disclosure of interest statement in this document. This should however not be treated as an endorsement of views expressed in this Report:

DISCLOSURE OF INTEREST & MATERIAL CONFLICT OF INTEREST STATEMENT:

SIE with its affiliates (reference shall individually or collectively refer to its respective relevant SIE’s affiliates as the context may require) :

- i. Are engaged in multiple financial service businesses inter-alia investment / merchant banking, lending, broking, distribution, wealth management, asset management, portfolio management, equity capital markets services including institutional equities & research;
- ii. Actual, potential, or apparent conflict of interest may arise as a result of various business activities carried out by SIE and its affiliates.
- iii. SIE and its affiliates and / or its respective personnel and / or its advisors may in future engage in activities that may result in conflict which may not have been captured herein.
- iv. SIE and its affiliates has policies and procedures in place for addressing such conflicts. SIE, its affiliates and its directors/partners/employees shall exercise a standard of good faith in its dealings.

SIE and/or its affiliates and/or employees and/ or their relative(s) may have a financial interest in the subject company. SIE and/or its affiliates may have actual/beneficial ownership of one percent or more securities of the subject company or may from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein at the end of the month immediately preceding the date of publication of the Research Report. SIE and/or its associates and/or its employees have not been engaged in market making activity for the subject company.

In the last twelve-month period ending on the last day of the month immediately preceding the date of publication of the Research Report, SIE and/or its affiliates and/or employees may have:

- i. managed/co-managed public offering of securities for the subject company;
- ii. received compensation for investment banking/merchant banking/brokerage services / other products/ services of the group from the subject company of this Research Report;
- iii. engaged in any other transaction involving such securities and earn fees or other compensation as an advisor or lender/borrower to subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions at the time of publication of Research Report or at the time of public appearance.
- iv. provided services to the subject company as a client.
- v. Research Analyst views on subject company may vary based on Fundamental research and Technical Research. Investment Advisory (both as portfolio manager or investment advisor or Fund management activities) or Proprietary investment / trading by SIE’s affiliates maintains arm’s length distance with Research Team as all the activities are segregated from SIE’s research activity and therefore it can have an independent view (including take contrary view / investment advise / investment exposure) with regards to subject company for which Research Team have expressed their views.

The affiliates of SIE has not received any compensation or other benefits from third party in connection with the research report

However, the above shall have no bearing on the specific recommendation made by the Analyst(s), as the recommendation made by the Analyst(s) are independent of the view of the affiliates of SIE. No part of the analyst's compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views as expressed in this report.

Research Reports are not exchange traded products, and hence disputes relating to research activities of SIE do not have access to exchange investor redressal or Arbitration mechanism. We also hereby declare that our activities were neither suspended nor have we defaulted with any Stock Exchange authority with whom we are registered in the last five years. We have not been debarred from doing business by any Stock Exchange/SEBI or any other competent authorities, nor has our certificate of registration been cancelled by SEBI at any point in time.

ADDITIONAL DISCLAIMER FOR US INVESTORS:

SIE is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934 and under applicable state laws in the United States, as amended. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by SIE, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b) under the Securities Exchange Act of 1934 and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This Research Report must not be acted on or relied on by persons who are not major institutional investors.

SIE has entered into a chaperoning agreement with a U.S. registered broker-dealer, Aventus Capital Inc (“ACI”), affiliate a FINRA registered broker-dealer (CRD # 150160) in the State of Delaware with its principal office at 445 Park Avenue, 19th Floor, New York 10022. Any investment or investment activity to which this Research Report relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement. This research report is distributed in the United States by ACI, accepts responsibility its dissemination in the United States. Further, ACI has not authored this research report nor has independently verified any of the data presented within this report. The information provided is based on the research and analysis conducted by SIE. ACI does not recommend nor endorse this report. Furthermore, ACI does not have any direct business relationships with SIE nor does receive any direct compensation for the distribution of this report.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, ACI, and therefore, may not be subject to FINRA Rule 2241 restrictions on communications restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

ADDITIONAL DISCLAIMER FOR UK INVESTORS:

For the purposes of distribution within the United Kingdom, this communication is exempt from the financial promotion restriction in Section 21 of the Financial Services and Markets Act, 2000 relating to the communication of an invitation or inducement to engage in investment activity on the grounds that it is made to those persons falling within the following Articles of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended: Article 19 (Investment Professionals) and Article 49 (High Net Worth Companies). Any investment to which this communication relates is only available to investment professionals and high net worth companies.

CERTIFICATION BY EACH OF THE AUTHORS OF THIS REPORT:

The Analyst certifies that the views expressed in this Research Report are a representation of the Analyst's personal opinions on the stock or sector as covered and reported. The Analyst is principally responsible for the preparation of this Research Report and does not have any material conflict of interest at the time of publication of this Report. The Analyst(s) has not served as an officer, director, or employee of the subject company in the last 12 month period ending on the last day of the month immediately preceding the date of publication of the Research Report. The Analyst does not have actual/beneficial ownership of one per cent or more of the securities of the subject company, at the end of the month immediately preceding the date of publication of the research report.

Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.